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Sub

the Glengair Group limited

annual report 1970

the Glengair Group limited

CORPORATE DIRECTORY

DIRECTORS	J. S. GAIRDNER J. H. GAIRDNER J. H. HAWKE PETER HEDGEWICK L. C. E. LAWRENCE C. W. LEONARDI, C.A. JOHN A. MULLIN, Q.C. W. J. R. PATON D. G. SINCLAIR
OFFICERS	J. S. GAIRDNER, Chairman of the Board J. H. HAWKE, President D. G. SINCLAIR, Vice President and General Manager — Operations C. W. LEONARDI, C.A., Vice President and Treasurer GEORGE L. PLODER, C.A., Assistant Treasurer CYRL H. HOLLINGSHEAD, Q.C., Secretary
TRANSFER AGENT AND REGISTRAR	CANADA PERMANENT TRUST COMPANY Montreal, Toronto, Winnipeg, Vancouver
TRUSTEE — DEBENTURES	THE ROYAL TRUST COMPANY Montreal, Toronto, Winnipeg, Vancouver
AUDITORS	GLENDINNING, JARRETT, GOULD & CO. Chartered Accountants, Toronto
SOLICITORS	FRASER & BEATTY, Toronto
LISTED	TORONTO STOCK EXCHANGE MONTREAL STOCK EXCHANGE

the Glengair Group limited

interim report june 30, 1970

81.8% owned
Graham Bennett, Vice Pres. & Gen. Mgr.

Venpower Limited
50% owned
C. W. Leonardi, President

The above percentages refer only to common share ownership.

To the Shareholders:

We are pleased to report that unaudited results for the six months ended June 30, 1970 show a 44 per cent increase in net sales, from $13,341,883 to $19,227,442 and earnings from the operations increased 34 per cent from $1,200,862 to $1,613,995. Current figures include Glengair's portion (62 per cent of the common shares) of the earnings of Atlantic Sugar Refineries Co. Limited for one-sixth of the period.

Earnings before extraordinary expenses declined slightly to $372,555 from $418,956, and net earnings, after extraordinary expense were $53,885 compared with $321,026.

The Glengair Group is pleased to be associated with Atlantic Sugar Refineries Co. Limited through the acquisition of 62 per cent of the issued and outstanding common shares of the Company in June, 1970, which transaction added approximately 3,000 new shareholders to the Glengair Group. Atlantic Sugar refines and markets "Lantic" brand sugar and is also engaged in fishing and fish processing as well as the production of groundwood pulp.

The shares of your company were listed for trading on the Toronto Stock Exchange in the month of July.

The general decline in the Canadian economy has affected operations in our subsidiary companies for this period. Key management appointments in certain subsidiaries, plus a gradually improving business climate, indicate better results for the second half of the year.

J. H. Hawke,

President.

THE GLENGAIR GROUP LIMITED
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS
FOR THE SIX MONTHS ENDED JUNE 30, 1970

	1970	1969
Sales (Net)	**$19,227,442**	13,341,883
Cost of Sales	**14,001,514**	9,731,003
Gross Earnings from Operations	**$ 5,225,928**	3,610,880
Operating Expenses		
Administration and selling	**$ 2,782,694**	1,989,983
Depreciation and depletion	**829,239**	420,035
	$ 3,611,933	2,410,018
Earnings from Operations	**$ 1,613,995**	1,200,862
Financial Expenses		
Debentures		
Interest	**$ 412,900**	303,874
Amortization of financing costs	**28,152**	28,836
	$ 441,052	332,710
Other interest	**203,695**	102,418
	$ 644,747	435,128
	$ 969,248	765,734
Investment and Other Income		
Interest	**$ 114,920**	15,841
Dividends	**34,143**	20,969
Sundry	**35,927**	29,719
	$ 184,990	66,529
Less: Carrying charges	**118,504**	98,814
	$ 66,486	(32,285)
	$ 1,035,734	733,449
Provision for Income Taxes		
Income taxes payable	**$ 596,682**	376,385
Deferred income taxes	**(181,650)**	(56,452)
	$ 415,032	319,933
	$ 620,702	413,516
Minority interest therein	**$ 248,147**	(5,440)
Earnings before Extraordinary Expense	**$ 372,555**	418,956
Extraordinary expense (net) less income taxes and minority interest	**318,670**	97,930
Net Earnings for the Six Months	**$ 53,885**	321,026

THE GLENGAIR GROUP LIMITED
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE SIX MONTHS ENDED JUNE 30, 1970

	1970	1969
Source of Funds		
Earnings before extraordinary expense	$ 372,555	418,956
Items not affecting funds		
Depreciation and depletion	829,239	420,035
Deferred income taxes	(181,650)	(56,452)
Amortization of deferred financing costs	28,152	28,836
Minority interest	248,147	(5,440)
Funds from operations	$ 1,296,443	805,935
Other		
Excess of working capital over funds used to acquire subsidiary	$ 2,749,469	—
Demand bank and other loans arranged pending permanent financing	12,500,000	6,570,000
Issue of common shares for cash	142,500	152,503
Proceeds from sale of investments, less realized gain included as extraordinary income	171,333	41,348
Proceeds from insurance	—	255,282
Issue of long term debt	—	50,000
	$16,859,745	7,875,068
Application of Funds		
Additions to fixed assets (net)	$ 462,407	1,096,159
Reduction of long term debt	577,389	128,200
Purchase of other investments	125,260	2,354,008
Funds used in acquisition of subsidiaries in excess of working capital thereof	—	2,437,432
Extraordinary expense less income taxes and minority interest	318,670	97,930
Deferred tax	(82,194)	—
Minority interest	(33,906)	—
Miscellaneous	12,434	45,804
	$ 1,380,060	6,159,533
Increase in working capital for six months	$15,479,685	1,715,535
Working capital, January 1	6,455,453	2,393,958
Working capital, June 30	$21,935,138	4,109,493

1969	1968	1967	1966
$29,734,157	$19,882,252	$20,384,369	$10,437,384
$ 400,323	$ 661,077	$ 730,260	$ 369,414
$ 1,480,806	$ 760,377	$ 301,160	$ 19,852
$ 1,881,129	$ 1,421,454	$ 1,031,420	$ 389,266
20¢	18¢	13¢	5¢
9,367,306	7,873,827	7,860,862	7,332,976
—	—	—	—
$ 41,690	$ 100,326	$ 121,122	$ 48,868
$14,606,615	$ 8,077,139	$ 8,606,461	$ 7,533,205
$45,724,084	$32,183,455	$26,974,431	$27,154,639

licable have been restated to reflect accounting methods employed in 1970.

ngair Group limited

Acadia Pulp and Paper Limited
100% owned
J. S. Donaldson, Vice Pres. & Gen. Mgr.

Atlantic Fish Processors Co. Ltd.
100% owned
L. E. Labrosse, President

Canadian Tuna Company (1965) Limited
100% owned
G. E. Waring, President & Gen. Mgr.

Lyman Tube Limited
100% owned
O. Foster Carter, President

Sonco Steel Tube Limited
100% owned
Harry Sonshine, President

The above percentages refer only to common share ownership.

To the Shareholders:

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Earnings before extraordinary expenses declined slightly to $372,555 from $418,956, and net earnings, after extraordinary expense were $53,885 compared with $321,026.

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J. H. Hawke,

President.

COMPARATIVE KEY DATA

	1970	1969	1968	1967	1966
Sales (net)	$ 77,279,018	$29,734,157	$19,882,252	$20,384,369	$10,437,384
Earnings before Extraordinary Income	$ 1,822,108	$ 400,323	$ 661,077	$ 730,260	$ 369,414
Extraordinary Income (net)	—	$ 1,480,806	$ 760,377	$ 301,160	$ 19,852
Net Earnings for the Year	$ 1,822,108	$ 1,881,129	$ 1,421,454	$ 1,031,420	$ 389,266
Net Earnings per Common Share	10¢	20¢	18¢	13¢	5¢
Number of Common Shares Outstanding	11,570,196	9,367,306	7,873,827	7,860,862	7,332,976
Number of Class B Preference Shares Outstanding	3,180,585	—	—	—	—
Preference Dividends Paid Including Amounts Paid to Minority Shareholders of Subsidiaries	$ 797,822	$ 41,690	$ 100,326	$ 121,122	$ 48,868
Working Capital	$ 27,304,094	$14,606,615	$ 8,077,139	$ 8,606,461	$ 7,533,205
Gross Assets	$152,329,864	$45,724,084	$32,183,455	$26,974,431	$27,154,639

Note: For comparative purposes, figures for past years where applicable have been restated to reflect accounting methods employed in 1970.

the Glengair Group limited

Atlantic Sugar Refineries Co. Limited
62.3% owned
W. J. R. Paton, President

Allanson Manufacturing Company
100% owned
R. A. Crolly, President

Canada Brick Company
100% owned
E. Y. Carlson, President

Glentech Instruments Limited
100% owned
Emanuel Batler, President

Northern Tar, Chemical and Wood Limited
77.7% owned
W. R. Parks, Vice Pres. & Gen. Mgr.

Redi-Set Business Forms
100% owned
Donald Varner, Vice Pres. & Gen. Mgr.

St. Lawrence Brick Co. Limited
51% owned
André Goyer, President

Tancord Industries Ltd.
81.8% owned
Graham Bennett, Vice Pres. & Gen. Mgr.

Venpower Limited
50% owned
C. W. Leonardi, President

Acadia Pulp and Paper Limited
100% owned
J. S. Donaldson, Vice Pres. & Gen. Mgr.

Atlantic Fish Processors Co. Ltd.
100% owned
L. E. Labrosse, President

Canadian Tuna Company (1965) Limited
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Lyman Tube Limited
100% owned
O. Foster Carter, President

Sonco Steel Tube Limited
100% owned
Harry Sonshine, President

The above percentages refer only to common share ownership.

TO THE SHAREHOLDERS:

In the year ended December 31, 1970, the Glengair Group Limited expanded its operational horizons and increased its profits at a time when the general business climate was in a very severe and depressed state. The acquisition of a substantial equity investment in Atlantic Sugar Refineries Co. Limited was responsible for a significant portion of the improved consolidated results. Earnings from operations were $1,822,108, establishing a record high for the Company.

With our operations spread among a diversified number of industries, it is impossible to avoid being subjected to outside influences from virtually every sector of the economy. The freeing of the Canadian dollar has adversely affected several of the operating companies, although others whose markets are entirely domestic have not been so drastically involved. The difficult mortgage market which has resulted in downturns in construction activity was, and is, a matter of vital concern to three of our subsidiaries. In addition, price fluctuations in world markets, rising labour costs and high interest rates placed an additional strain on operations and management during the year. We are pleased to report that the strengthening of management and the improvement in operating efficiencies helped to achieve substantial increases in sales and profits.

FINANCIAL

The Glengair Group's net sales for the year amounted to $77,279,018 compared to $29,734,157 in 1969, which is an increase of 160 per cent. The inclusion of sales figures for Atlantic Sugar from June 1, 1970 to year end accounted for the major portion of this substantial increase.

Earnings in 1970, with no extraordinary items, amounted to $1,822,108 compared to $400,323 in 1969 before an extraordinary gain last year of $1,480,806. Earnings per common share, after payment of preference dividends and before extraordinary items, were 10 cents in 1970 compared to 4 cents last year based on the average number of shares outstanding.

In 1970 the authorized capital of the Company was increased to facilitate the exchange of shares with holders of securities in Atlantic Sugar Co. Limited. At year end, there were 11,570,196 common shares outstanding compared to 9,367,306 a year earlier. In addition, Class B preference shares were issued for the first time in the amount of 3,180,585 shares. Long term financing plans were deferred on the advice of our financial advisors, a decision that has been confirmed by the current lowering of interest rates.

Consolidated working capital increased at year end by $12,697,479 to $27,304,094. Capital expenditures for additions to fixed assets were held to a minimum throughout the year.

Retained earnings rose to $4,303,333 from $3,329,576 for an increase of 29 per cent after payment of preferred dividends of $797,822 including $320,813 to minority shareholders of subsidiary companies.

No material changes have taken place in the year in the Company's portfolio of marketable securities. The major portion of investments held are in ITL Industries Limited, Canadian Security Management and Orangeroof Canada Ltd. Orangeroof, which holds exclusive rights from the Howard Johnson Company for Canada, has opened two restaurants, one in Toronto and one in Montreal.

Three Howard Johnson's Motor Lodge/Restaurants are expected to be in operation by year end. They are located in Moncton, N.B., Toronto and London, Ontario. Several other motor lodges and restaurants are under development, including a 251-seat restaurant which is now under construction on Yonge Street at St. Clair Avenue. This company is now entering a very active phase in its operations.

OPERATIONS

Atlantic Sugar Refineries Co. Limited became a member of the Group in June, 1970 when Glengair acquired 62.3 per cent of Atlantic's shares. Pre-tax earnings for 1970 reached an all-time record and net earnings increased approximately 20 per cent on the year to $6,268,078.

While earnings from sugar operations did not surpass the prior year's, this area of the company's activities continues to be the major contributor to total earnings of Atlantic Sugar. Results from both its pulp operations and its groundfish business showed increased profits for the year.

Atlantic Sugar completed two acquisitions in the latter part of the year, both of which made minor contributions to 1970 results but will add significantly to 1971's. Sonco Steel Tube Limited of Brampton, manufacturers of mechanical steel tubes and structural steel sections, has an annual output of approximately 50,000 tons of products used for electrical wiring conduit and in the manufacture of industrial and farm equipment, furniture railings and posts, garden equipment, toys, recreation equipment as well as hollow structural sections for the construction industry. Atlantic's other acquisition, Lyman Tube Ltd., of Oakville, is a supplier of tubular steel and mechanical equipment as well as a source of supply and servicing for materials handling equipment. This company is the exclusive agent in Eastern Canada for the tubular products of United States Steel, and has experienced its most rapid growth in the past five years as steel tube has become increasingly popular in a variety of applications. These two companies are expected to show improvements in operations and profitability in the future.

Atlantic Sugar ended the year with working capital of approximately $15,000,000 after incurring substantial expenditures for additions to fixed assets and for the acquisitions of Sonco and Lyman. We are confident that the future activities of Atlantic Sugar will be of increasing benefit to the overall performance of The Glengair Group.

* * * * * *

Allanson Manufacturing Company achieved improved results despite a downward trend in earnings experienced by the industry in general. Effective management techniques have been implemented to achieve greater efficiency of operations and savings in overhead. These, to a large extent, have offset the cost-price squeeze caused by wage increases, interest rates and other inflationary factors.

Operations were concentrated on the production of a variety of electrical products — transformers, ballasts and battery chargers — with special emphasis on equipment used in the audio-visual installations including such places as the Province of Ontario's "Ontario Place".

Allanson is aggressively investigating new products as well as the possibility of acquisitions related to its industry. In particular, investigations are being made of a series of products pertaining to the pollution problem through the application of ozone treatment.

* * * * * *

Canada Brick Company experienced a slowdown in deliveries because of the decline in building construction during the year, particularly in the residential sector, brought on by high interest rates and a shortage of mortgage funds. Early in 1971 these conditions had been largely corrected and the company anticipated an appreciable improvement in sales volume for the current year.

The company continues to pursue an active programme of product development and innovation. Several new product variations are under consideration for test marketing. An experiment, based on a system developed by the Canadian Structural Clay Association of off-site production of brick panels, is under way. A test house has been constructed using these panels to gather on-site data, and to measure their feasibility for widespread use. Through these innovative and marketing-oriented approaches of management, it is anticipated Canada Brick will continue to strengthen its position of leadership in the industry.

* * * * * *

Glentech Instruments Limited has investigated many opportunities in technology-intensive developments in Canada and the United States with a view to investing in and/or acquiring companies whose products have potential in various fields of science or technology.

During the year Glentech acquired an equity position in Spectrametrics, Inc., a Boston-based manufacturer of analytical instruments, through the purchase of common shares, warrants and convertible debentures. Our current plans indicate a proposed increased investment in Spectrametrics.

Glentech continues to hold a 19.2 per cent interest in Digital Telephone Systems, Inc., of California, developers of a series of products with application in the sophisticated electronic communication industry in the United States.

* * * * * *

The performance of Northern Tar, Chemical and Wood Limited was affected by a major downturn in lumber prices, a decline in construction activities and the freeing of the Canadian dollar.

Inventories of timber and allied products were considerably reduced during the year and refinements were made in the method of operating the lumber mill. The resultant efficiency of operations brought about by these changes should allow the company to utilize the facilities to their maximum advantage.

Subsequent to year end, Nortar entered into an agreement with Northwood Mills Ltd. of Toronto to handle export sales of lumber which will increase the company's penetration of export markets.

The capable management team now heading up the Nortar group of companies has taken steps to improve the company's operations and product mix in order to do business more effectively and competitively in the future.

* * * * * *

Redi-Set Business Forms continued to make further inroads into new markets during the year. A complete reorganization of the sales and marketing functions has been completed and both administrative and sales personnel have been strengthened to provide greater management depth for the coming year.

Redi-Set's expanded production capacity has facilitated the addition of optical character recognition (OCR) forms to its well established lines of optical scanning and consecutive MICR numbered and encoded continuous forms.

Continuous business forms for commerce and industry are the main products of Redi-Set. As the computer becomes a more widely used facility in business, the demand for Redi-Set's expertise in supplying custom tailored business forms for data processing equipment should result in the continuation of the company's upward growth pattern.

* * * * * *

Tancord Industries Ltd. reported a loss for the year despite an increase in sales. The company's harvest twine business continued to be affected by imported products and although the balance of its operations showed some improvement, the highly competitive nature of its business added to the cost-price squeeze in operations.

Product lines have been reviewed with price increases being made where possible and low volume items being dropped. Both inventory controls and production standards have been upgraded and key management personnel reorganized. These operational changes are already resulting in improvements which are anticipated to continue throughout the year.

* * * * * *

St. Lawrence Brick Co. Limited of La Prairie, P.Q., was acquired in 1969 to supply bricks to the Montreal market. Modernization of the facilities was necessary to enable the company to compete effectively for a larger share of the market. Construction of new production equipment, principally an additional tunnel kiln has recently been completed and is now in operation.

* * * * * *

Venpower Limited which distributes electricity in eastern Venezuela, is experiencing a difficult time principally with

regard to government authority over hydro electric rates and services. Current discussions and negotiations indicate a strong possibility that the electric utility in Venezeula will be disposed of during 1971. Until these discussions are completed, long term plans for this subsidiary are in abeyance.

* * * * * *

MANAGEMENT

Prevailing business conditions in Canada during 1970 made it imperative that corporations tighten their management controls and operational procedures. This is especially significant where management is in control of a diversity of operations in many industries, as is The Glengair Group Limited. Accordingly, this past year was marked by intensive management development in virtually all member operating companies. Without exception, the administrative, production, marketing and sales activities of these companies have been substantially improved for long term growth. Under the executive guidance and financial surveillance of strong management at head office, we anticipate greater growth in productivity and profitability. The experience of the past inflationary period has had a significant effect on the overall development of our management team and will undoubtedly benefit future operations.

All member companies of the Group are cognizant of their responsibilities to the communities in which they operate and have undertaken active programs to regulate the effects of their operations on the environment.

OUTLOOK

The somewhat brighter outlook in the general economy, and more particularly in many of the industries in which our member companies are operating, indicates a very favourable upward trend for the profitablity of The Glengair Group Limited.

We wish to acknowledge the efforts throughout the year of our many employees and associates who have contributed to the overall progress of the Company.

On behalf of the Board of Directors

April 7, 1971

J. H. HAWKE, President

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assets

	1970	1969
Current		
Cash	$ 5,927,666	$ 1,059,899
Short term investments — at cost which approximates market value	867,365	1,124,103
Marketable securities — at cost (Note 2) (Market value 1970 $11,252,225; 1969 $10,276,923)	11,312,750	8,261,077
Accounts receivable	15,272,311	4,957,895
Inventories — at the lower of cost and net realizable value	16,498,081	8,471,852
Prepaid expenses and other assets	959,271	240,643
Taxes recoverable	287,859	71,915
	51,125,303	24,187,384
Notes and Other Investments	2,226,714	1,140,189
Fixed		
Land, buildings, machinery, equipment, leasehold improvements and ships — at cost	106,551,999	22,639,418
Accumulated depreciation, depletion and amortization	31,705,014	13,044,107
	74,846,985	9,595,311
Deferred Charges	954,004	944,521
Excess of Cost of Investment in Subsidiaries Over Book Value of Net Assets Acquired	23,176,858	9,856,679
	$152,329,864	$45,724,084

Approved by the Board:

J. H. Hawke
C. W. Leonardi

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BALANCE SHEET

er 31, 1970

liabilities

	1970	1969
Current		
Bank advances (Secured) (Note 3)	$ 9,422,874	$ 4,264,948
Accounts payable and accrued liabilities	10,099,165	4,148,971
Income taxes payable	2,354,382	693,852
Current instalments of long-term debt	1,594,968	459,250
Dividends payable to minority shareholders of subsidiary companies	349,820	13,748
	23,821,209	9,580,769
Demand Bank Loans (Secured) (Note 4)	18,766,000	9,050,000
Note Payable in Respect of Acquisition of Shares of Subsidiary Company	3,000,000	—
Deferred Income Taxes (Note 5)	297,804	323,375
Long-Term Debt (less current instalments) (Note 6)		
Parent Company	3,462,580	3,662,580
Subsidiary Companies	4 31,891,071	4,236,922
	35,353,651	7,899,502
Minority Interest in Subsidiary Companies		
Preference shares — par value	10,550,295	1,177,485
Common shareholders' equity	19,822,259	2,475,054
	30,372,554	3,652,539

shareholders' equity

	1970	1969
Share Capital (Note 7)		
Authorized		
20,000,000 common shares without par value		
1,000,000 cumulative redeemable preference shares with a par value of $25 each		
15,000,000 6% non-cumulative convertible non-voting Class B preference shares with a par value of $5 each		
Issued and fully paid		
11,570,196 common shares (1969 — 9,367,306 shares)	20,512,383	11,888,323
3,180,585 Class B preference shares	15,902,930	—
Retained Earnings	4,303,333	3,329,576
	40,718,646	15,217,899
	$152,329,864	$45,724,084

$15,217,899
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the Glengair Group limited

and its subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1970

	1970	1969
Sales (Net)	$77,279,018	$29,734,157
Cost of Sales	55,239,843	21,819,971
Gross Earnings from Operations	22,039,175	7,914,186
Operating Expenses		
Administration and selling	10,924,103	4,258,908
Depreciation and depletion	2,819,751	1,015,962
	13,743,854	5,274,870
Earnings from Operations	8,295,321	2,639,316
Financial Expenses (Net)		
Debentures		
Interest	1,639,735	599,041
Amortization of financing costs	53,885	57,634
Other interest	1,748,721	981,099
	3,442,341	1,637,774
Investment and other income	735,265	232,744
	2,707,076	1,405,030
	5,588,245	1,234,286
Provision for Income Taxes		
Income taxes payable	2,504,682	913,137
Deferred income taxes	(254,604)	(142,712)
	2,250,078	770,425
	3,338,167	463,861
Minority interest therein	1,516,059	63,538
Earnings Before Extraordinary Items	1,822,108	400,323
Extraordinary income (net) less income taxes and minority interest	—	1,480,806
Net Earnings for the Year	$ 1,822,108	$ 1,881,129
Basic Earnings Per Common Share		
Before extraordinary items	10¢	4¢
Net earnings for the year	10¢	20¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1970

	1970	1969
Balance, January 1	$3,329,576	$1,490,872
Add: Net earnings for the year	1,822,108	1,881,129
	5,151,684	3,372,001
Deduct: Preferred dividends, including $320,813 (1969 $41,690) paid to minority shareholders of subsidiary companies	797,822	41,690
Other	50,529	735
	848,351	42,425
Balance, December 31	$4,303,333	$3,329,576

the
Glengair Group
limited

and its subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS (Note 1)

for the year ended December 31, 1970

	1970	1969
SOURCE OF FUNDS		
Net earnings for the year (1969 — before extraordinary income)	$ 1,822,108	$ 400,323
Items not affecting funds		
Depreciation and depletion	2,819,751	1,015,962
Deferred income taxes	(254,604)	(142,712)
Amortization of deferred financing costs	53,885	57,634
Minority interest	1,516,059	63,538
Funds from operations	5,957,199	1,394,745
Other		
Funds from extraordinary income		
Extraordinary income	—	1,480,806
Deferred income taxes	—	181,736
Minority interest	—	64,449
Reclassification of marketable securities (Note 11)	—	8,261,077
	—	9,988,068
Demand bank loans arranged pending permanent financing (Note 4)	9,500,000	9,050,000
Issue of common shares of parent and subsidiary companies (1969 only) for cash	142,500	469,752
Proceeds from sale of investments, less realized gain included as extraordinary income	—	417,048
Forgivable loans for purchase of fixed assets	—	298,561
Issue of long term debt, including note payable (Note 1)	5,750,029	50,000
Miscellaneous	218,486	158,480
	15,611,015	20,431,909
	21,568,214	21,826,654
APPLICATION OF FUNDS		
Additions to fixed assets (net)	2,004,260	2,161,440
Purchase of marketable securities	—	1,500,000
Reduction of long-term debt	1,289,761	586,240
Purchase of other investments	189,349	3,294,713
Payment of dividends	1,390,910	74,936
Miscellaneous	—	188,338
Acquisition of subsidiaries (net of working capital)	3,996,455	1,808,330
	8,870,735	9,613,997
Increase in working capital for the year	12,697,479	12,212,657
Working capital, January 1	14,606,615	2,393,958
Working capital, December 31	$27,304,094	$14,606,615

the Glengair Group limited

and its subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 1970

1. BASIS OF CONSOLIDATION

Assets, liabilities and operating results of all subsidiary companies, except St. Lawrence Brick Co. Limited, have been included in the consolidated financial statements.

Control of Atlantic Sugar Refineries Co. Limited was acquired at June 1, 1970 and the Company's portion of its operating results has been included from that date.

In addition, during the year Atlantic Sugar Refineries Co. Limited acquired all of the outstanding shares of Sonco Steel Tube Limited and Lyman Tube Limited. Results of their operations were included in those of Atlantic Sugar Refineries Co. Limited from September 26, 1970 and December 1, 1970, the respective dates of acquisition.

Control of St. Lawrence Brick Co. Limited was acquired on July 1, 1969 at which time it was planned to provide new facilities to replace certain of the existing plant and equipment. Until these major changes are completed, it is considered that the accounts of this company ought not to be included in the consolidated financial statements. Operations since acquisition have resulted in a loss, of which the share attributable to The Glengair Group Limited amounts to $163,373, no part of which has been provided for in these financial statements.

2. MARKETABLE SECURITIES

During the year the Company adopted the practice of valuing marketable securities at cost rather than at market values as in former years. If the method previously employed had been used in 1970 the shareholders' equity in the Company would not have been materially different. Figures for 1969 have been restated accordingly with a resultant reduction of $2,015,846 in the shareholders' equity as compared with the figures previously reported.

3. SECURITY FOR BANK ADVANCES

Bank advances are partially secured by inventories and general assignment of book debts. See also Note 4.

4. DEMAND BANK LOANS — SECURED

The Company arranged these loans as part of a long term financing program. Investments in subsidiaries and certain other investments have been pledged as security.

Due to the economic circumstances prevailing in 1970 and in accordance with the advice of the Company's financial advisers, the permanent financing was deferred until a time when capital markets are more favourable.

While it is recognized that according to the recommendations of the Canadian Institute of Chartered Accountants, these loans should be included under the heading of current liabilities, the treatment accorded them, in the opinion of the directors and management of the Company, provides a fairer presentation of the financial position of the Company.

5. DEFERRED INCOME TAXES

Unrecorded deferred income tax credits (net of charges) accumulated prior to the adoption of the allocation basis in 1968, and reduced by subsequent charges to date amount to $13,003,000. These credits arose from capital cost allowances in excess of depreciation recorded in prior years.

6. LONG-TERM DEBT

	1970	1969
Parent company		
Sinking fund debentures		
Series 'A' 6¾%, due December 15, 1985	$ 1,962,580	$ 2,062,580
Series 'B' 6½%, due June 30, 1976	1,700,000	1,800,000
	3,662,580	3,862,580
Less: Sinking fund payments due within one year	200,000	200,000
	$ 3,462,580	$ 3,662,580
Subsidiary companies		
Northern Tar, Chemical and Wood Limited		
Secured debenture, 7.8% due $110,000 annually December 15, 1971 to 1978 inclusive	1,380,000	1,490,000
Canada Brick Company Limited		
First mortgage sinking fund bonds, 6¾%, due January 4, 1986 (the current obligation has been met)	1,500,000	1,600,000
Tancord Industries Ltd.		
Secured debenture, 6¾%, due $100,000 annually July 31, 1971 to 1981	1,100,000	1,200,000
Atlantic Sugar Refineries Co. Limited		
Sinking fund bonds		
Series 'A' 4% maturing in 1974	3,800,000	—
Series 'A' 6¾% maturing in 1984	4,833,000	—
Series 'C' 6% maturing in 1985 (U.S. $8,554,000)	9,165,568	—
First mortgage bonds		
6¼% maturing quarterly until 1982	1,209,990	—
7¼% maturing semi-annually until 1987	1,412,471	—
8¼% maturing semi-annually until 1988	4,051,577	—
8¾% maturing semi-annually until 1988	893,889	—
Other		
8½% note payable due 1974	2,750,000	—
Miscellaneous	1,035,297	—
	29,151,792	—
Mortgages and floating charge debentures	154,247	206,172
	33,286,039	4,496,172
Less: Sinking fund and principal payments due within one year	1,394,968	259,250
	$31,891,071	$ 4,236,922

Payments required in the next five years to meet long-term debt instalments and sinking fund provisions are:

1971	$1,594,968
1972	1,759,523
1973	1,776,046
1974	4,727,760
1975	1,546,485

7. CAPITAL STOCK, OPTIONS AND WARRANTS

Capital Stock

(a) Authorized

The authorized capital of the Company was increased by 15,000,000 6% non-cumulative convertible non-voting Class 'B' preference shares with a par value of $5 each.

(b) Issued during 1970

82,500 common shares were issued for a cash consideration of $142,500

2,120,390 common shares were issued for $8,481,560 and 3,180,585 Class 'B' preference shares for $15,902,930 as partial consideration for a majority interest in Atlantic Sugar Refineries Co. Limited

Options

The following options are outstanding:

15,000 common shares at $5.375 per share (at a maximum rate of 3,000 shares per year) to an employee of a subsidiary company to expire not later than August 31, 1974.

50,000 common shares at $2.50 per share (at a maximum rate of 10,000 shares per year) to an officer of the Company to expire not later than December 31, 1975.

Share Purchase Warrants

There are share purchase warrants outstanding entitling the holders thereof to purchase an aggregate of 651,050 common shares of the Company at the following prices:

$2.25 per share if exercised on or before June 30, 1972; thereafter

$3.00 per share if exercised on or before June 30, 1974; thereafter

$4.00 per share if exercised on or before June 30, 1976; void thereafter

'B' Warrants

During the year 210,930 warrants were issued in exchange for 210,930 Atlantic Sugar Refineries Co. Limited warrants entitling the holders thereof to purchase for each warrant one unit consisting of one and one-half (1½) 6% non-cumulative convertible, non-voting Class 'B' preference shares with a par value of $5.00 each and one (1) common share without par value at the following prices:

$10 per unit if exercised on or before March 1, 1973; thereafter

$12 per unit if exercised on or before March 1, 1976; thereafter

$14 per unit if exercised on or before March 1, 1978; void thereafter

Atlantic Sugar Refineries Co. Limited

524,400 of the authorized common shares of this subsidiary have been reserved as follows:

(a) 450,000 shares for the exercise of warrants issued in 1968 of which 210,930 are held by the parent company, and which entitle the holders to purchase one share for each warrant as follows:

Until March 1, 1973 at $10 per share
Until March 1, 1976 at $12 per share
Until March 1, 1978 at $14 per share

(b) 74,400 shares for stock options to officers and key employees. Options have been granted to purchase 41,400 of such shares at $7 each over a ten-year period terminating in June 1979. Options to purchase 600 shares were exercised during the year for cash.

8. TRANSLATION OF FOREIGN CURRENCIES

Translation of accounts in foreign currencies has been made as follows:

(a) Current assets and current liabilities — at the rate of exchange on December 31, 1970.

(b) Fixed assets — at the rate of exchange prevailing at the time of acquisition.

(c) All items on the statement of earnings — at the average rate of exchange for the year calculated on a monthly basis.

9. STATUTORY INFORMATION

The aggregate direct remuneration paid or payable by the Company or its subsidiaries to the directors and senior officers (as defined by the Ontario Business Corporations Act) of the Company was $317,454 (1969 $313,984).

10. LOANS FROM SHAREHOLDER

Of the aggregate bank loans and advances $21,817,636 is owing a bank which is a shareholder of the Company.

11. RESTATEMENTS OF FIGURES FOR 1969

In order to conform to reclassification of accounts adopted in 1970, certain figures for 1969 have been restated.

12. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments for rentals under long term leases amount to approximately $915,000 over the next twenty-two years.

(b) The purchase price of a subsidiary includes an amount of $2,750,000 which has not been reflected in the statements because this amount is contingent upon future earnings of such subsidiary. The final price will be accounted for on January 1, 1976 with interest at 5%.

13. FULLY DILUTED EARNINGS PER COMMON SHARE

The exercise of warrants, conversion and option privileges respecting the Company's shares and those of its subsidiaries would not have a dilutive effect on earnings per common share.

auditors' report

TO THE SHAREHOLDERS,
THE GLENGAIR GROUP LIMITED.

We have examined the consolidated balance sheet of The Glengair Group Limited and its subsidiaries as at December 31, 1970 and the consolidated statements of earnings, retained earnings, and source and application of funds for the year ended on that date. Our examination of the financial statements of the Company and those subsidiaries of which we are the auditors, included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in the basis of valuing marketable securities referred to in Note 2, with which we concur.

Toronto, Ontario.
March 8, 1971.

GLENDINNING, JARRETT, GOULD & CO.
Chartered Accountants